

1 Multiple-Choice Questions

Which of the following is not one of the three main reasons why the auditor should properly plan engagements?

- a. To enable proper on-the-job training of employees.
- b. To enable the auditor to obtain sufficient competent evidence.
- c. To avoid misunderstandings with the client.
- d. To help keep audit costs reasonable.

A measure of how willing the auditor is to accept that the financial statements may be materially misstated after the audit is completed and an unqualified opinion has been issued is the

- a. inherent risk.
- b. acceptable audit risk.
- c. statistical risk.
- d. financial risk.

A measure of the auditor's assessment of the likelihood that there are material misstatements in an account before considering the effectiveness of the client's internal control is

- a. control risk.
- b. acceptable audit risk.
- c. statistical risk.
- d. inherent risk.

The auditor is likely to accumulate more evidence when the audit is for a company

- a. whose stock is publicly held.
- b. which has extensive indebtedness.
- c. which is to be sold in the near future.
- d. All three of the above.

Which of the following is not typically included in initial audit planning?

- a. Client acceptance/continuation decisions.
- b. Determination of the purpose of the audit.
- c. Schedule engagement staff and audit specialists.
- d. Perform preliminary analytical procedures.

Most auditors assess inherent risk as high for related parties and related-party transactions because

- a. of the accounting disclosure requirement.
- b. of the lack of independence between the parties.
- c. both a and b.

- d. it is required by generally accepted accounting principles.

Which of the following is not correct regarding the communications between successor and predecessor auditors?

- a. The burden of initiating the communication rests with the predecessor auditor.
- b. The burden of initiating the communication rests with the successor auditor.
- c. The predecessor auditor must receive their former client's permission prior to divulging information to the successor auditor
- d. The predecessor auditor may choose to provide a limited response to a successor auditor.

Which of the following is not a document or record that should be examined early in the engagement?

- a. Management letter.
- b. Corporate charter and bylaws.
- c. Contracts.
- d. Minutes of board of directors' and stockholders' meetings.

Which of the following is not a potential effect of an auditor's decision that a lower acceptable audit risk is appropriate?

- a. More evidence is required.
- b. Less evidence is required.
- c. Special care is required in assigning experienced staff.
- d. Review of the audit files by personnel who were not assigned to the engagement.

It is easier and more common to implement increased evidence accumulation for inherent risk than for acceptable audit risk because

- a. inherent risk can usually be isolated to one or two accounts.
- b. inherent risk applies to the entire audit.
- c. acceptable audit risk and sample sizes are set statistically.
- d. acceptable audit risk does not impact on the amount of evidence which must be accumulated.

1) Explain why auditors need an understanding of client's industry. What sources are commonly used by auditors to learn about the client's industry?

2) Identify the three categories of client objectives. Indicate how each objective may affect the auditor's assessment of inherent risk and evidence accumulation.

3) What are the purposes of preliminary analytical procedures? What types of comparisons are useful when performing preliminary analytical procedures?

4) Describe top management controls and their relation to client business risk. Give examples of effective management and governance controls.

5) Discuss the ways in which a CPA's observations made during the course of the plant tour will help in planning and conducting an audit for a manufacturer.